

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Orleans Parish School Board
New Orleans, Louisiana

February 12, 2003



Investigative Audit

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Daryl G. Purpera, CPA, CFE

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February 12, 2003

MS. ELLENESE BROOKS-SIMMS
BOARD PRESIDENT
ORLEANS PARISH SCHOOL BOARD
New Orleans, Louisiana

Transmitted herewith is our investigative report of the Orleans Parish School Board. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendations as well as your response. Copies of this report have been delivered to the Orleans Parish School Board; the Honorable Eddie Jordan, District Attorney for the Orleans Parish Judicial District of Louisiana; Mr. James Letten, United States Attorney for the Eastern District of Louisiana; and others, as required by state law.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

DD:EKL:DGP:dl

[ORLSB03]

Executive Summary

Investigative Audit Report Orleans Parish School Board

Background *(See page 5.)*

The Orleans Parish School Board (OPSB) is a political subdivision created for providing public education to the residents of Orleans Parish under Louisiana Revised Statutes 17:51 and 17:121, as amended. The school board is presently composed of seven members elected by districts serving concurrent four-year terms; these terms began January 2001.

The school board is composed of a central office, 134 schools, and educational support facilities. Student enrollment for the 2001-2002 year was 75,223 regular and special education students. The school board employs approximately 13,085 persons.

The legislative auditor received information of possible improprieties involving insurance claims resulting from two area storms and the corresponding repair work supervised by the former Director of Risk Management, Mr. Carl Coleman. This office began an audit of the allegations, reviewing school board records and interviewing certain OPSB employees and others as deemed appropriate.

Finding *(See page 7.)*

In violation of OPSB policy and state public bid law, Mr. Carl Coleman, former Director of Risk Management for the OPSB, approved a \$532,500 payment to and managed the work progress of Angelic Asset Management, Inc. (Angelic). The payment was for repair work related to two area storms. Angelic kept \$306,753 and paid a subcontractor \$225,747 to perform the repairs; however, according to OPSB inspections performed at the legislative auditor's request, Angelic completed approximately \$33,219 in repairs. Mr. Coleman and the OPSB should have paid Angelic only \$35,378, allowing Angelic to keep \$2,159 as specified by its contract and paying its subcontractor \$33,219 for the actual value of the repairs. The OPSB would have saved \$497,122.

Mr. Coleman did not have authority to operate under the state's emergency bid procedures and did not comply with the Public Bid Law nor the OPSB procedures. During this process Mr. Coleman:

1. Did not require Angelic to sign a contract for the repair work
2. Did not require Angelic to be licensed, insured, or bonded
3. Did not obtain approval from his supervisor before paying Angelic
4. Paid Angelic in full as the repair work commenced
5. Did not require that Angelic submit a detailed description of work completed
6. Did not verify that Angelic completed the repair work

Without compliance with the Public Bid Law, board approval, and a properly executed contract, Mr. Coleman had no authority to spend public funds, and Angelic had no right to accept the funds. In addition, the OPSB was not aware of a confidential agreement between Angelic and its subcontractor requiring that Angelic receive 20% of all money paid to the subcontractor for repairs.

Recommendations *(See page 21.)*

We recommend that the Orleans Parish School Board:

1. Prevent the Risk Management Department from managing the contracting process with construction related vendors
2. Limit the involvement of the Risk Management Department in managing emergency repair projects
3. Require management to certify that internal policies and procedures and state laws are adhered to with respect to purchases including emergency repair work and capital improvements

We also recommend that the District Attorney of Orleans Parish and the United States Attorney for the Eastern District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Management's Response (*See Attachment I.*)

This report closely parallels the Legislative Auditor's September 25, 2002, investigative report on the Orleans Parish School Board. Both reports document misconduct by the School board's former Risk Manager relating to emergency construction projects.

At every step, Mr. Coleman repeatedly violated School board policies and procedures. Clearly, his misconduct depended on loose management at the highest levels of the Administration, which permitted Mr. Coleman unsupervised control of more than \$4.4 million in insurance proceeds as well as unfettered authority to manage construction projects which were the province of the Facility Planning Department. School board policies and procedures regarding the functions of these two departments create a system of checks and balances. By blatantly violating those policies and procedures, the fox installed himself as the guardian of the hen house.

Finally, the recommendations in the Legislative Auditor's two reports are almost identical, mainly curtailing the involvement of the Risk Management Department in managing contracting and repair work on construction projects. Consequently, our response to this report is in many ways simply a further development of the initiatives described in our response to the September report.

Background and Methodology

The Orleans Parish School Board (OPSB) is a political subdivision created for providing public education to the residents of Orleans Parish under Louisiana Revised Statutes 17:51 and 17:121, as amended. The school board is presently comprised of seven members elected by districts serving concurrent four-year terms; these terms began January 2001.

The school board is comprised of a central office, 134 schools, and educational support facilities. Student enrollment for the 2001-2002 year was 75,223 regular and special education students. The school board employs approximately 13,085 persons.

The legislative auditor received information of possible improprieties involving insurance claims resulting from two area storms and the corresponding repair work supervised by the former Director of Risk Management, Mr. Carl Coleman. This office began an audit of the allegations, reviewing school board records and interviewing certain OPSB employees and others as deemed appropriate.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the school board; (2) interviewing other persons as appropriate; (3) examining selected school board records; (4) performing observations and analytical tests; and (5) reviewing applicable state and federal laws and regulations.

The result of our investigative audit is the finding and recommendations herein.

Finding

In violation of OPSB policy and state public bid law, Mr. Carl Coleman, former Director of Risk Management for the OPSB, approved a \$532,500 payment to and managed the work progress of Angelic Asset Management, Inc. (Angelic). The payment was for repair work related to two area storms. Angelic kept \$306,753 and paid a subcontractor \$225,747 to perform the repairs; however, according to OPSB inspections performed at the legislative auditor's request, Angelic completed approximately \$33,219 in repairs. Mr. Coleman and the OPSB should have paid Angelic only \$35,378, allowing Angelic to keep \$2,159 as specified by its contract and paying its subcontractor \$33,219 for the actual value of the repairs. The OPSB would have saved \$497,122.

Mr. Coleman did not have authority to operate under the state's emergency bid procedures and did not comply with the Public Bid Law nor the OPSB procedures. During this process, Mr. Coleman:

1. Did not require Angelic to sign a contract for the repair work
2. Did not require Angelic to be licensed, insured, or bonded
3. Did not obtain approval from his supervisor before paying Angelic
4. Paid Angelic in full as the repair work commenced
5. Did not require that Angelic submit a detailed description of work completed
6. Did not verify that Angelic completed the repair work

Without compliance with the Public Bid Law, board approval, and a properly executed contract, Mr. Coleman had no authority to spend public funds, and Angelic had no right to accept the funds. In addition, the OPSB was not aware of a confidential agreement between Angelic and its subcontractor requiring that Angelic receive 20% of all money paid to the subcontractor for repairs.

On January 23, 2000, a hailstorm struck Orleans Parish causing damage to the roofs of certain area schools. On June 6, 2001, another storm struck Orleans Parish further damaging the roofs of some area schools.

Concerned about the proper use of the Public Bid Law dealing with the storm damage, school board officials requested an opinion (Op. No. 01-289) from the Office of the Louisiana Attorney General. In a written response dated August 2, 2000, to the school board, the Attorney General stated, in part:

. . . the definition of an emergency in the Public Bid Law is very narrow. R.S. 38:2211A(6) provides: An "emergency" means an unforeseen mischance bringing with it destruction or injury to life or property or the imminent threat of such destruction or injury . . .

The damage caused by the hail storm of January 23, 2000 may well have constituted such an “unforeseen mischance” when it occurred over eighteen months ago, but if those repairs have not yet been made it is difficult to now find emergency circumstances in the original hail damage.

. . . The damaged buildings should be reviewed on a case by case basis and those specific instances where health or safety risks for your students have resulted can now be dealt with using the emergency provisions in La. R.S. 38:2212D. This requires only that the Board declare such a project to be an emergency and advertise that declaration within ten days of its adoption by the Board.

The Attorney General ended his opinion by stating that other repairs, beyond those considered an emergency, must be contracted in accordance with non-emergency procedures as required by the Louisiana Public Bid Law.

The OPSB has procedures in place in the event of emergencies to mitigate losses and make repairs to damaged properties. These procedures virtually mirror Louisiana’s Public Bid Law, Revised Statute 38 Sections 2212 and 2241. During an emergency, the superintendent/CEO is authorized to seek bids from licensed contractors for repair work. The time allowed to advertise for bids is reduced because of the emergency circumstances. The bids should be obtained as practically as possible by verbal or written quotations or sealed bids. When a bid is accepted, the bid should then be reduced to a written contract and approved by the school board president or vice president. In addition, school board policy requires the school board to ratify the contract or expenditure in a public meeting no later than ten days after the contract is approved or expenditure made.

As a result of the hailstorm, the OPSB publicly advertised a request for proposals. The request was for an insurance adjuster to serve the school board’s interest in determining the loss caused by the hailstorm. The proposals from interested bidders were to be delivered to the school board by February 23, 2001. Mr. Mitchell F. Crusto, Law Professor and owner of Angelic Asset Management submitted a proposal to the school board. On April 9, 2001, Mr. Coleman recommended to the school board and the school board, in a public meeting, selected Angelic as the school board’s claims adjuster. The school board agreed to compensate Angelic for its adjusting services (5.5% of the claim settlement amount), then signed a contract to that effect with Angelic on August 17, 2001.

The Public Bid Law considers claims adjusting services to be professional services and exempt from the formal bid process. Services relating to the storm damage, such as general contracting or acting as a general contractor, require adherence to the Public Bid Law.

No Authority to Enter Into Emergency Contract

The emergency provisions of the school board’s policy are established to reduce the time required making necessary repairs in true emergency situations. Mr. Coleman improperly used these procedures to enter into an agreement for repairs more than two months after the second storm damaged the properties.

On July 31, 2001, in a public meeting, the OPSB declared nine schools emergencies but did not approve spending public funds for the repairs.

On July 31, 2001, in a public meeting, the OPSB declared nine schools emergencies as a result of the two storms, but did not approve spending public funds for the repairs. Also during this meeting, the OPSB expanded Angelic's responsibilities to include adjusting the tropical storm damage and provide design services and construction management services. Angelic would be compensated 5.5% of the claim settlement amount for adjusting the claim, 6.5% of the repair costs for managing the repair process, and the school board's standard fee for design services (dependent

on several factors such as difficulty of the project and project cost).

On March 1, 2001, the OPSB received \$500,000 as partial claim payment for storm damage from the Travelers Indemnity Company of Illinois. OPSB records indicate that on August 17, 2001, Mr. Crusto, representatives of the School board's Division of Facilities and Auxiliary Services, and Mr. Coleman met to discuss temporary roof repairs to 37 schools. Subsequent to the meeting, Mr. Crusto memorialized the oral agreement in letters dated August 17, 2001, to Mr. F. G. Dowden, Executive Director, Division of Facilities and Auxiliary Services and Mr. Coleman.

On March 1, 2001, the OPSB received \$500,000 as partial claim payment for storm damage.

On August 23, 2001, Mr. Coleman approved the payment, and Angelic was paid \$532,500.

The letter to Mr. Dowden is, according to Mr. Crusto, a "draft Memorandum of Understanding," which "serves to clarify procedures and expectations regarding our repair of public school roofs." The letter to Mr. Coleman states that "Angelic will perform emergency temporary repairs to indicate OPSB's good faith intent to utilize Traveler's initial \$500,000 partial claim payment" and "requests 6.5% (\$32,500) to act as construction manager per the terms of the

pertinent school board agenda item approved July 31, 2001." Mr. Crusto did not indicate in the letters to Mr. Coleman or Mr. Dowden that copies of the letters were delivered to the OPSB or other administration officials. On August 23, 2001, Mr. Coleman approved the payment, and Angelic was paid \$532,500.

School board records and officials indicate that Mr. Coleman personally handled the agreement and payment process and managed the repair project for the school board. According to Dr. Kenneth Ducote, Director of Facility Planning for the OPSB, after Angelic's February 23, 2001, proposal for adjusting services was delivered to the purchasing department, Mr. Coleman handled the process. Mr. Dowden stated that Facility Planning had no involvement with Angelic until May or June of 2001, after Mr. Coleman had already begun working with Angelic. In a letter dated September 6, 2001, and addressed to Dr. Ducote, OPSB attorney, Mr. Robert Rosenberg, stated that he told Angelic personnel

OPSB attorney, Mr. Robert Rosenberg, stated that he told Angelic personnel directly they could not perform the repair work.

directly they could not perform the repair work and act as the claim adjuster. OPSB President Carolyn Ford was the OPSB President during this time. Ms. Ford stated that she was unaware of Angelic's agreement to perform emergency repairs for the school board.

OPSB records indicate that Mr. Coleman managed and was responsible for the repair project. The August 17, 2001, written agreement between the OPSB and Angelic for adjusting services

Facility Planning acknowledges that Mr. Coleman is managing the repair project for the OPSB.

names Mr. Coleman or his designee as the contact person between Angelic and the OPSB. Memorandums from Dr. Ducote to Mr. Rosenberg and Mr. Coleman dated September 6, 2001, and October 26, 2001,

respectively, suggest that Facility Planning is concerned about becoming involved in the emergency repair work and acknowledges that Mr. Coleman is managing the repair project for the OPSB.

Correspondence between Angelic and Mr. Coleman states that Angelic proceeded with the "emergency" repairs under the authority of the July 31, 2001, school board approval (a public meeting in which the board approved emergency repairs to nine schools). However, according to Angelic records, it made "emergency" repairs to 37 schools, only six of which were declared emergencies by the OPSB during its July 31, 2001, meeting.

Because the school board had not declared these additional 31 schools as emergencies and the repairs did not meet the requirement of an emergency, Mr. Coleman should have followed the provisions of R.S. 38:2212 (Public Bid Law) and school board policy by advertising and seeking the lowest responsible bid. In addition, according to minutes of the July 31, 2001, school board meeting, the school board did not award Angelic a contract to perform emergency roof repairs nor did the board in later meetings approve Angelic's oral agreement to perform the repairs. Therefore, Mr. Coleman again bypassed school board procedures by not seeking approval from the school board ten days after expending public funds. Accordingly, Mr. Coleman did not have authority to spend public funds, and Angelic had no right to accept the \$500,000 partial claim payment.

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NO WRITTEN AGREEMENT

Mr. Coleman violated R.S. 38:2241 by not reducing his oral agreement with Angelic into writing.

The oral agreement was for the school board to pay Angelic \$500,000 for emergency repair work and 6.5% (\$32,500) for construction management. R.S. 38:2241 requires that any emergency contract in excess of \$50,000 shall be in writing. Therefore, Mr. Coleman violated R.S. 38:2241 by not reducing his oral agreement with Angelic into writing and violated school board policy by not seeking board approval of a written contract, thereby giving public notice of the contract.

NO CONTRACTOR REQUIREMENTS

R.S. 38:2212 (Public Bid Law) mandates certain requirements of the general contractor to reduce the risk to the public entity and ensure the good and faithful service of the contractor. These requirements, in part, require that the contract include a description of work to be performed, completion dates, and performance terms, and licensure by the Louisiana State Licensing Board for Contractors. R.S. 38:2241 states that public contracts in excess of \$25,000 shall require of the contractor a bond with good, solvent, and sufficient surety in a sum of not less than 50% of the contract price for the payment by the contractor or subcontractor to claimants.

The oral agreement entered into with Angelic lacked the aforementioned required material components of R.S. 38:2212 and 2241. Unlike the school board's standard contract, this simple oral agreement leaves critical decisions such as which repairs to make and specifications for material used open for interpretation by the contractor and reduces the school board's ability to

The oral agreement also exposed the school board to future liabilities from subcontractors since Angelic never provided payment or performance bonds to the OPSB.

properly manage the project. The oral agreement also exposed the school board to future liabilities from subcontractors since Angelic never provided payment or performance bonds to the OPSB. Payment and performance bonds ensure that in the event Angelic failed to pay subcontractors or perform the agreed-upon terms of the contract, the OPSB would be reimbursed for damages.

In addition, R.S. 37:2150-2173 requires those in the business of general contracting to obtain a license from the Louisiana State Licensing Board for Contractors. The Louisiana State Licensing Board for Contractors notified this office that neither Mr. Crusto nor Angelic holds a Louisiana state contractor's license. Therefore, the OPSB and Angelic are in violation of R.S. 37:2150-2173.

Had the school board's policies been followed, Angelic would have been required to possess a contractor's license and sign the standard contract for general contracting, which complies with R.S. 38:2212 and 2241 and R.S. 37:2150-2173.

The standard OPSB contract for construction management would have required certain duties to be performed by Angelic such as effective and efficient cost, time, and quality control of the project. The duty of the construction manager is to ensure that the general contractor is performing his duties as stated in his contract.

The duty of the construction manager is to ensure that the general contractor is performing his duties as stated in his contract.

Angelic did not have a written contract to act as construction manager. As a result, the agreement lacked duties required in the OPSB's standard contract. Had the agreements been in writing, the duties required of the construction manager would be in conflict with the duties of the contractor doing the repair work. In addition, had Angelic been required to follow standard OPSB procedures, the OPSB would have been made aware of the conflict of interest and given the opportunity to award the contracts to separate individuals.

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NO APPROVAL FOR PURCHASE AND PAYMENT

For services of \$100,000 and above, OPSB policy requires adherence to the formal bid process, a purchase order system, and the signature approval of the superintendent or chief executive officer (CEO) and school board. The payment to Angelic was in excess of \$100,000 and therefore required adherence to the bid process, the preparation and approval of a purchase order, and the signature authorization of former CEO, Mr. Alphonse Davis or Chief Operations Officer, Mr. Roger Reese. Neither Mr. Davis nor Mr. Reese approved the request for payment of \$532,500 to Angelic. Mr. Coleman submitted the request for payment directly to the finance department by use of a "public voucher," a document used by the OPSB when purchase orders are not required.

By using a public voucher, the purchasing department was bypassed and the voucher was submitted directly to the finance department. Therefore, Mr. Coleman avoided giving a written contract to or seeking approval from the purchasing department. The finance department however should have questioned the lack of proper supervisory approval on the voucher. According to the public voucher that Mr. Coleman submitted to the finance department, his secretary requested payment of \$532,500 to Angelic and Mr. Coleman approved the payment. Neither Mr. Davis nor

1 Please call when check is ready **Brenda 5459 or 5454**

FINANCE DEPARTMENT
NEW ORLEANS PUBLIC SCHOOLS
(ORLEANS PARISH SCHOOL BOARD)
3510 GENERAL DE GAULLE DR. • NEW ORLEANS, LA 70114
(FOR PAYMENTS NOT REQUIRING ISSUANCE OF PURCHASE ORDER)

Angelic Asset Management
(Payee)
P.O. Box 791719
(Address)
New Orleans, LA 70179-1719
(City, State and Zip)

REQUERER: I certify that procurement of materials or services identified herein is in accordance with School Board Policy and that the payment is within the adopted budget.
Signature: Brenda Roblin Date: 8/23
Title and/or Position: Secretary
REVIEWER: The cost of materials or services identified herein is approved for payment and the budget is available as indicated.
Signature: Carl Coleman Date: 8/23
Title and/or Position: Dir. Risk Mgt. Oper
Payment Request Date: _____
Date Payment Regularly Due: _____

(1) ITEM	(2) QUANTITY	(3) DESCRIPTION	(4) UNIT PRICE	(5) AMOUNT
		Fee for professional services (Hail Damage)		\$294,890.00 \$532,500.00
				XXXXXX532,500.00 TOTAL \$ XXXXXX532,500.00

Mr. Coleman's Secretary Requested the Funds.
Mr. Coleman Approved the Request.

(ATTACH INVOICE AND SUPPORTING DOCUMENTS)

ACCOUNTING CODE (DEBIT)		AMOUNT	
ITEM	41999 0000		
	51-301-2254-52610-0522		
	0100-0000		
	0000 0000		\$532,500.00

ACCOUNT CODE (CREDIT)		AMOUNT	
ITEM			

FOR OFFICIAL USE ONLY

Charge Code Approved: _____
Budget: _____ Date: _____
Budget Funds Available: _____ Authority of Reviewer Checked: _____
Budget/Finance: _____ Date: _____ Accounts Payable: _____ Date: _____
Math Checked: _____ Adequate Documentation: _____
8-23-01

Accounts Payable: _____ Date: _____ Accounts Payable: _____ Date: _____
Cash Funds are Available: _____ Payment is Authorized: _____
Cash Manager: _____ Date: _____ Finance Director: _____ Date: _____
PUBLIC VOUCHER NUMBER: PV0218-03 CHECK NUMBER: 216
VENDOR'S NUMBER: _____ VENDOR'S INVOICE NUMBER: _____ CHECK DATE: _____

(USE ATTACHMENT FORM FOR ANY ADDITIONAL ACCOUNTING CODES)
FINANCE DEPT. FORM # 80

Mr. Reese signed approving the payment. In addition, the president or vice president of the school board did not properly approve the payment.

We questioned Mr. Reese and Ms. Cassandra Robert, Director of Finance, about the approval process for the September 25, 2002, investigative audit of the school board. Their statements apply to the same time period as this audit. Mr. Reese stated that his understanding was when the school board declared an emergency at the schools, they were aware of the \$500,000 deductible on the insurance policy and therefore he interpreted it as acceptable for the administration to spend the deductible amount of \$500,000. Mr. Reese also stated that the administration failed to inform the school board of spending over the deductible amount.

Ms. Robert stated that adherence to the approval policy was ignored during the time Angelic was paid. Ms. Robert also stated that after we questioned the payments, she was instructed by the executive director of finance to follow OPSB policy.

In addition to bypassing normal OPSB policy, Mr. Coleman violated Article 7, Section 14 of the Louisiana Constitution by paying Angelic the entire \$532,500 as repair work commenced. OPSB and Angelic records indicate that someone faxed the invoice on August 14, 2001; the invoice was dated August 17, 2001; and with Mr. Coleman's approval, Angelic was paid on August 23, 2001. Angelic began making repairs on August 18 or 19, 2001, and completed the repairs in October 2001.

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ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LA 70179-1719
(504) 259- 8824
August 17, 2001

INVOICE FOR PROFESSIONAL SERVICES

MR. CARL A. COLEMAN
NEW ORLEANS PUBLIC SCHOOLS

PLEASE PAY FOR PROFESSIONAL SERVICES RENDERED,
EMERGENCY ROOF REPAIRS AND PROJECT MANAGEMENT,
PURSUANT TO CONTRACT, THE AGREED COMPENSATION OF
\$532,500.00, FOR THE AMOUNT OF

PAYMENT DUE TO DATE.....\$532,500.00

PLEASE MAKE CHECK PAYABLE TO:
ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LOUISIANA 70179-1719

RUSH
Emergency Item
Provide detail & line item total
\$500,000 Approved during last Friday's meeting 6:57p
Cost. mgmt fee \$32,500 = \$532,500
Carl A. Coleman
8/23/01

Date Faxed
August 14, 2001

Date Invoiced
August 17, 2001

This work began
August 18 or 19, 2001.

Date Paid in Full
August 23, 2001

SUBSTANDARD INVOICES

The OPSB has procedures in place for accepting contractor invoices submitted for payment. The procedures require that the invoices be itemized and descriptive enough to determine the work performed for which the contractor is requesting payment. Mr. Coleman accepted invoices from Angelic that only generally described the repair work and construction management performed.

According to Dr. Ducote, when the Facility Planning Department is involved in a construction project, the contractor is provided a standard invoice. The contractor completes the standard invoice which details the work completed, payment amount, total contract amount, and balance owed on the contract. The contractor then signs the invoice and has his signature notarized. The architect of record and the OPSB's staff coordinator assigned to the project then review the invoice before payment is made.

Mr. Coleman did not follow OPSB procedures. Angelic submitted 38 invoices as support for the \$500,000 in "emergency" roof repairs to Mr. Coleman, which were:

- (1) not itemized or detailed and therefore not OPSB standard invoices;
- (2) not signed by Mr. Crusto;
- (3) not notarized;
- (4) not approved by anyone other than Mr. Coleman; and
- (5) as stated earlier, paid as repair work began.

Typically, a general contractor submits an invoice to the OPSB for payment that contains documentation from his subcontractors describing the work and charges to the general contractor for the work. Mr. Crusto did not submit to the OPSB any invoices from his subcontractor, Team Horizon. A principal owner of Team Horizon was Mr. Jeffrey Pollitt, mentioned in our September 25, 2002, Investigative Audit report of the OPSB. Mr. Pollitt established another company, Horizon Group of LA, Inc., while working with Mr. Crusto. Mr. Crusto paid Mr. Pollitt under the company names, Team Horizon and Horizon Group.

According to the OPSB Finance Department records, Angelic was paid based on the \$532,500 invoice Mr. Coleman provided to the department.

ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LA 70179-1719
(504) 259- 8824
September 28, 2001

INVOICE FOR TEMPORARY REPAIRS McDonogh #32 School

MR. CARL A. COLEMAN
DIRECTOR, RISK MANAGEMENT
NEW ORLEANS PUBLIC SCHOOLS

PLEASE PAY FOR TEMPORARY REPAIRS TO MCDONOGH 32 SCHOOL, FACILITATED BY ANGELIC UNDER CONTRACT TO THE ORLEANS PARISH SCHOOL BOARD, AND AS REQUESTED BY NEW ORLEANS PUBLIC SCHOOLS DEPARTMENT OF FACILITIES PLANNING, AS FOLLOWS:

SCOPE OF WORK:

Emergency repairs of 14 damaged and leaking areas. 3 story roof.

PAYMENT DUE TO DATE.....\$15,271.74

PLEASE MAKE CHECK PAYABLE TO:
ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LOUISIANA 70179-1719

CONFIDENTIAL AGREEMENT

MARKETING AGREEMENT

THIS AGREEMENT IS MADE AND ENTERED INTO THIS 23rd DAY OF MAY 2001, BY AND BETWEEN ANGELIC ASSET MANAGEMENT (“ANGELIC”) AND INSURANCE TEAM, HORIZON GROUP FOR CONSTRUCTION SERVICES (“CONTRACTOR”), AS FOLLOWS:

II. COMPENSATION

1. CONTRACTOR AGREES TO DEDUCT AND PAY ANGELIC A SALES COMMISSION OF TWENTY PERCENT (20.0%) OF THE AMOUNT THAT ANGELIC AGREES TO PAY CONTRACTOR FOR THE ACTUAL WORK THAT CONTRACTOR ACTUALLY PERFORMS, INCLUDING ANY SUPPLEMENTAL WORK. SAID SALES COMMISSION WILL BE PAID TO ANGELIC UPFRONT ON A PRO-RATA BASIS FROM ANY PAYMENT THAT CONTRACTOR RECEIVES FROM ANGELIC OR FROM ITS CUSTOMER’S INSURANCE COMPANY; AND

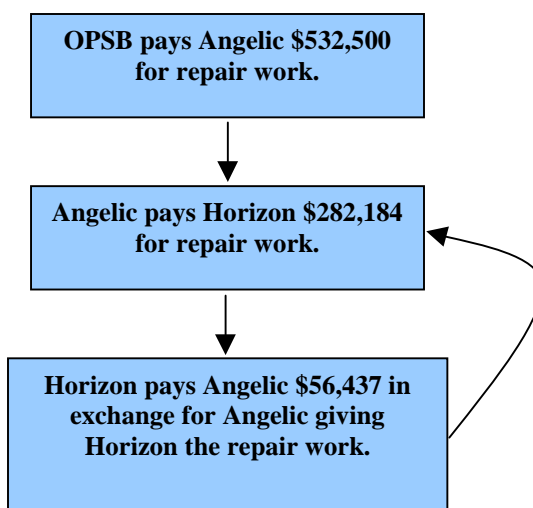
V. CAUSE FOR TERMINATION

ANGELIC SHALL HAVE THE RIGHT TO TERMINATE THIS AGREEMENT FOR THE FOLLOWING:

- 1. CONTRACTOR’S FAILURE TO PERFORM IN A TIMELY, SCHEDULED MANNER;**
- 2. CONTRACTOR’S FAILURE TO KEEP THE MATTERS OF THIS AGREEMENT CONFIDENTIAL;**

According to OPSB and Angelic records (public meeting minutes and Angelic correspondence), Mr. Crusto while acting as construction manager had a duty to provide the best value and service to the OPSB. Despite being paid \$32,500 to serve as construction manager, Mr. Crusto entered into a confidential agreement with Horizon to receive an additional \$56,437 (20%) from Horizon. Consequently, Angelic allowed Horizon to inflate its invoices 20% for work performed.

Mr. Crusto and Mr. Pollitt entered into an agreement dated May 23, 2001, stating, in part, that Mr. Pollitt would pay Mr. Crusto 20% of all repair work that Mr. Crusto gave to Mr. Pollitt. The agreement also stated that failure to keep the agreement confidential would be grounds for terminating the agreement. Angelic records indicate and Mr. Crusto confirmed that Angelic received 20% of all the payments made to Horizon for repair work. Mr. Crusto also stated that the OPSB was unaware of the agreement.



ANGELIC’S EXCESS PROFITS

According to Mr. Crusto, he subcontracted all of the “emergency” repair work to Horizon. Of the \$500,000 paid to Angelic for “emergency” repair work, Horizon was paid \$282,184. As stated previously, Horizon gave \$56,437 back to Angelic in exchange for Angelic giving Horizon the repair work. Therefore, Horizon was paid \$225,747 (net) for the repair work.

Invoice Audubon Montessori School

Invoice # 200059-A
Claim # 01-10056

Team Horizon, L.L.C.
1500 Girod
New Orleans, LA 70116
Phone (504) 587-3802 Fax (504) 463-5726

September 5, 2001

Estimator
DDS Multi-Line Pro

Insured Name Orleans Parish School Board
Loss Address Audubon Montes, 428 Broadway, New Orleans, LA 70117
Phone Number **Policy #** KTJCMB-294T9629
Other Phone **Ins Claim #** BUG1710M
Ins Company Travelers Insurance

Catastrophe # 131
Date of Loss 1/23/2000

Remit To Team Horizon, L.L.C.
1500 Girod
New Orleans, LA 70116

Bill To Angelic Asset Management
P.O. Box 791719
New Orleans, LA 70179

Tax Id

Ref	Description	Qty	Price	Total	Taxable
1	Emergency Repairs	1	\$2,489.81	\$2,489.81	
			Subtotal	\$2,489.81	
			Tax	\$0.00	
			Invoice Total	\$2,489.81	

Invoice Total - \$2,489.81

Angelic accounted for the \$500,000 by increasing Horizon's invoices in some cases as much as 292% then submitted its own invoices to Mr. Coleman. For example, Horizon invoiced Angelic \$2,489.81 for "emergency" repairs it completed at Audubon Montessori School. Angelic invoiced the OPSB \$9,762.42 for the same work.

As stated previously, Mr. Coleman did not have school board approval to expend public funds when he paid Angelic \$500,000 for repair work, and Angelic did not have a right to accept or keep the \$500,000. Therefore Angelic kept \$274,253 (\$500,000 - \$225,747) that it was not entitled to keep. In addition, Angelic was paid \$32,500 for construction management and therefore had a duty, in exchange for the payment, to provide the best value and service to the OPSB.

OVER-BILLINGS FOR REPAIRS COMPLETED

Although responsible fiscal management and Louisiana law require that a budget be prepared, approved, and adhered to, Mr. Coleman did not have a budget for the schools scheduled for repair. The OPSB cannot produce records to substantiate the required (budgeted) repairs made to any of the schools or whether repairs were made or completed on any school. It appears that Mr. Coleman relied solely on Angelic's invoice and paid Angelic without knowing the extent of repairs required or made to any of the schools.

A review of Angelic's records indicates Horizon provided Angelic with itemized invoices for the repair work performed. The invoices disclosed the amount charged to Angelic for roofers, materials, equipment, and fees as well as pictures in some cases of work performed. However, the records are not complete and some invoices could not be matched to payments made to Horizon.

ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LA 70179-1719
(504) 259-8824
September 28, 2001

INVOICE FOR TEMPORARY REPAIRS
Audubon Montessori School

MR. CARL A. COLEMAN
DIRECTOR, RISK MANAGEMENT
NEW ORLEANS PUBLIC SCHOOLS

PLEASE PAY FOR TEMPORARY REPAIRS TO AUDUBON MONTESSORI SCHOOL, FACILITATED BY ANGELIC UNDER CONTRACT TO THE ORLEANS PARISH SCHOOL BOARD, AND AS REQUESTED BY NEW ORLEANS PUBLIC SCHOOLS DEPARTMENT OF FACILITIES PLANNING, AS FOLLOWS:

SCOPE OF WORK:
Emergency repairs of 5 damaged and leaking a
1) Southwest corner
2) Front of building close to southwest corner
3) Middle of east wall
4) Front of building close to northeast corner
5) Northeast corner
All cover plates on metal were also sealed

PAYMENT DUE TO DATE.....\$9,762.42

PLEASE MAKE CHECK PAYABLE TO:
ANGELIC ASSET MANAGEMENT
P.O. BOX 791719
NEW ORLEANS, LOUISIANA 70179-1719

Invoice Total - \$9,762.42

Horizon charged Angelic as much as \$81 per hour for skilled roofers and \$68 for helpers. According to OPSB records, the customary labor rates in the New Orleans area are \$33.50 per hour for skilled roofers and \$22.50 per hour for helpers. Overtime labor rates are \$50.25 per hour for skilled roofers and \$33.75 per hour for helpers. In addition, it appeared that Horizon charged for rental equipment and materials it did not use and hauling and dumping fees it did not incur. Furthermore, Horizon added a 20% profit and overhead rate to the invoices based on labor, materials, and fee amounts it charged to Angelic.

It appeared that Horizon charged for rental equipment and materials it did not use and hauling and dumping fees it did not incur.

The OPSB received approximately \$33,219 in roof repairs; the OPSB paid Angelic \$500,000 for the repairs.

After informing the OPSB that Mr. Coleman was managing the repair process without a budget and expressing our concerns with Angelic and Horizon invoices, the legislative auditor requested that the OPSB have its employees (roofers, maintenance personnel, and architect) inspect the 37 schools. According to the OPSB's inspections, of the 37 schools invoiced for repairs, Horizon overcharged for work it performed at 26

schools and charged for work it did not perform at 11 schools. According to OPSB inspections, the OPSB received approximately \$33,219 in "emergency" roof repairs; the OPSB paid Angelic \$500,000 for the repairs.

According to OPSB inspections and Horizon's invoices to Angelic, it appears that Horizon billed Angelic as follows:

- \$72,600 for 11 schools that were not repaired
- \$209,034 for 26 schools that were repaired and billed excessively

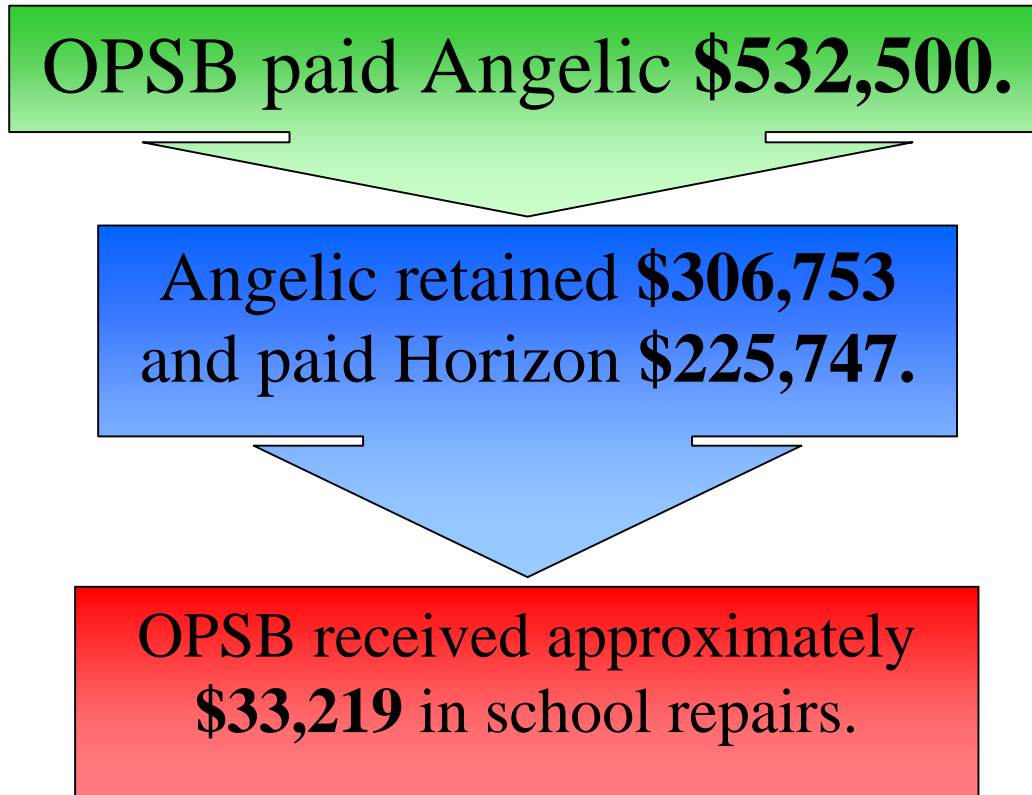
During an interview with Mr. Crusto, he could not confirm that all of the "emergency" repairs were completed without first reviewing his records. Mr. Crusto also stated that he had no obligation to give the OPSB the best value for the \$500,000 payment, but rather only provide the OPSB roof repair work.

Records received from the OPSB's Risk Management Department indicate that Angelic provided Mr. Coleman 38 invoices for "emergency" repairs made to 37 district schools. Angelic increased its invoices as much as 292% above the amounts Horizon charged Angelic in order to justify the spending of \$500,000 in "emergency" repairs. Angelic was also paid \$32,500 to act as construction manager based on 6.5% of the cost of the repairs. Therefore, based on the value received for repair work as estimated by the OPSB, Angelic should have paid Horizon \$33,219 and charged the OPSB \$2,159 ($33,219 \times 0.065$) for construction management for a total of \$35,378. As a result of Mr. Coleman's failure to follow state law and OPSB policy, the OPSB paid Angelic \$532,500, which was \$497,122 more than was appropriate. Angelic was

Combined, Angelic kept \$304,594 that it was not entitled to keep. Horizon kept \$192,528 more than the value of its repairs.

allowed to keep \$306,753 though it only should have kept \$2,159 and Horizon was paid \$225,747 though its repairs were worth only \$33,219.

The financial effects to the OPSB in contracting with Angelic are as follows:



According to OPSB records and after Angelic claimed to have completed the emergency repairs, Mr. Coleman prepared an agenda item for the October 22, 2001, OPSB meeting. Mr. Coleman recommended that the OPSB authorize the Board President and/or the CEO to accept the lowest bids received for the nine schools declared an emergency during its July 31, 2001, meeting. Mr. Reese approved the item. However, Mr. Davis refused the agenda item and the school board never heard the recommendations.

On May 28, 2002, Mr. Coleman resigned employment with the OPSB.

Section D – Page
October 22, 2001

DIVISION OF FINANCIAL SERVICES

5. RISK MANAGEMENT OPERATIONS

02-5.61 HAIL STORM DAMAGE REPAIRS

On July 31, 2001, in Agenda Item 02-5.58, the School Board declared that emergencies existed with respect to roofs at nine (9) schools due to hail storm damage.

Plans and specifications for the repair and/or replacement project are being prepared and negotiations with insurance carriers are proceeding.

In order to implement the work expeditiously, it is recommended that the CEO be authorized to accept the lowest bids as soon as bids for the work are received.

To date, the Insurance carriers have agreed to pay \$7.4 million for repairs at 22 school sites and have released \$5.4 million in actual cash value reimbursements. The Board's claim adjuster (Angelic Asset Management) has re-inspected the same locations and has submitted claims totaling in excess of \$30 million. Preparation for mitigating the disputed amounts is currently ongoing.

RECOMMENDATIONS: The Orleans Parish School Board authorize the Board President and/or the CEO to accept the lowest bids received for the emergency roof project covered by the Board's July 31, 2001, emergency declaration provided that the lowest bids are within the total amount of insurance proceeds received for the repairs.

PREPARED ON 10/12/01 BY:
Carl A. Coleman
Carl A. Coleman, Director
Risk Management Operations

REVIEWED ON 10/12/01 BY:
Roger Reese
Roger Reese,
Chief Operating Officer

APPROVED ON ___/___/___ BY:

A.G. Davis,
Chief Executive Officer

In addition to violations of the General Contracting Licensure Law (R.S. 37:2150-2173) and the Public Bid Law (R.S. 38:2212 and 2241) and Article 7, Section 14 of the Louisiana Constitution, the actions of Mr. Carl Coleman, Mr. Mitchell Crusto, and Mr. Jeffrey Pollitt described previously may be violations of the following:

- R.S. 14:26, “Criminal Conspiracy”¹
- R.S. 14:67, “Theft”²
- R.S. 14:118(A), “Public Bribery”³
- R.S. 14:134, “Malfeasance”⁴
- Title 18 U.S.C. 666, “Theft Involving Federal Programs”⁵

The actual determination as to whether an individual is subject to formal charge is at the discretion of the district attorney or the United States Attorney.

¹ **R.S. 14:26** provides, in part, that criminal conspiracy is the agreement or combination of two or more persons for the specific purpose of committing any crime; provided that an agreement or combination to commit a crime shall not amount to a criminal conspiracy unless, in addition to such agreement or combination, one or more of such parties does an act in furtherance of the object of the agreement or combination.

² **R.S. 14:67** provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

³ **R.S. 14:118(A)** provides, in part, that public bribery is the giving or offering to give, directly or indirectly, anything of apparent present or prospective value to any public officer, public employee, or person in a position of public authority with the intent to influence his conduct in relation to his position, employment, or duty. The acceptance of, or the offer to accept, directly or indirectly, anything of apparent present or prospective value, under such circumstances, by any public officer, public employee, or person in a position of public authority shall also constitute public bribery.

⁴ **R.S. 14:134** provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

⁵ **18 U.S.C. §666** provides, in part, that theft concerning programs receiving federal funds occurs when an agent of an organization, state, local, or Indian tribal government or any agency thereof embezzles, steals, obtains by fraud, or otherwise intentionally misapplies property that is valued at \$5,000 or more and is owned by or under control of such organization, state, or agency when the organization, state, or agency receives in any one year period, benefits in excess of \$10,000 under a federal program involving a grant contract, or other form of federal assistance.

Recommendations

We recommend that the Orleans Parish School Board:

1. Prevent the Risk Management Department from managing the contracting process with construction related vendors
2. Limit the involvement of the Risk Management Department in managing emergency repair projects
3. Require management to certify that internal policies and procedures and state laws are adhered to with respect to purchases including emergency repair work and capital improvements

We also recommend that the District Attorney of Orleans Parish and the United States Attorney for the Eastern District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response



Orleans Parish School Board

Ellenese Brooks-Simms, M.Ed., Board President
Una B. Anderson, Board Vice-President

3510 General de Gaulle Drive
New Orleans, Louisiana 70114

RECEIVED
LEGISLATIVE AUDITOR

(504) 365-8046
FAX (504) 365-5481

03 FEB -7 PM 1:48

VIA FAX AND US MAIL

February 5, 2003

Mr. Grover Austin
First Assistant Legislative Auditor
State of Louisiana
1600 North Third Street
Post Office Box 94397

Dear Mr. Grover:

After careful review of your investigative staff's report, we are please to provide you with our response. Please find attached that response.

Sincerely,

Ellenese Brooks-Simms

EBS/sv
enclosure

**MANAGEMENT'S RESPONSE TO
LEGISLATIVE AUDITOR'S REPORT ON
ANGELIC ASSET MANAGEMENT, INC.**

This report closely parallels the Legislative Auditor's September 25, 2002 investigative report on the Orleans Parish School Board. Both reports document misconduct by the School Board's former Risk Manager relating to emergency construction projects.

The first report concerned projects to repair two schools damaged by fire and a third school damaged by flooding. The current report concerns the repair of hail storm damage to the roofs of school buildings.

The repair projects are themselves linked. The Risk Manager used insurance proceeds for hail storm damage to pay more than \$3 million to an unlicensed contractor (Horizon) who had no insurance and no performance bond. By similar machinations, Mr. Coleman steered more than \$500,000 of these proceeds to an unlicensed consultant (Angelic) who also had no insurance and no performance bond.

Angelic and Horizon confected an illegal kickback scheme by which Horizon paid Angelic 20 percent of its receipts from the School Board. Grossly inflated and fraudulent billings on the part of both companies made the whole scheme workable. In addition, Mr. Coleman paid Angelic \$500,000.00 to perform the repairs and \$32,500.00 to supervise the repair work, producing a brazen conflict of interest.

At every step, Mr. Coleman repeatedly violated School Board policies and procedures. Clearly, his misconduct depended on loose management at the highest levels of the Administration, which permitted Coleman unsupervised control of more than \$4.4 million in insurance proceeds as well as unfettered authority to manage construction projects which were the province of the Facility Planning Department. School Board policies and procedures regarding the functions of these two departments create a system of checks and balances. By blatantly violating those policies and procedures, the fox installed himself as the guardian of the henhouse.

Finally, the recommendations in the Legislative Auditor's two reports are almost identical, mainly curtailing the involvement of the Risk Management

Department in managing contracting and repair work on construction projects. Consequently, our response to this report is in many ways simply a further development of the initiatives described in our response to the September report.

In addition to the measures recounted in my response to the September report, we have instituted the following changes:

1. The Board adopted a Critical Action Plan that provides a framework for administrative action to address the deficiencies in transparency and accountability that we noted in our response to your first report.
2. The Compliance Officer now delivers monthly reports to the School Board in an open meeting in full view of the public.
3. We have taken steps to increase the staffing level of the Compliance Department to enable more robust monitoring of compliance issues.
4. As we continue to search for a new Internal Auditor, we have boosted the salary and the qualifications advertised for this position.
5. We are seeking to recover public funds wrongfully paid to Angelic, by means of a cross claim in a federal lawsuit filed by a contractor against Angelic and the School Board.
6. The Board entered into a three year contract with an outside consultant, Compensation & Benefits Consulting Services, L.L.C., to conduct a thorough review of all contracts negotiated by the Risk Management Department and make recommendations regarding systems, policies and practices. CBCS works closely with our Compliance Office and with General Counsel, and has recently provided a detailed status report on its findings and recommendations.
7. There have been substantial changes in the leadership of the Administration, with more changes expected. On January 31, 2003, the Board voted to appoint an experienced educator as Superintendent of New Orleans Public Schools. Mindful that the former Risk Manager's misconduct could not have persisted for long in an environment of proper supervision, we are committed to hold our new Superintendent accountable for his decisions in filling, and supervising, the many critical administrative positions that remain vacant or filled on an interim or temporary basis. These positions include Chief Financial Officer, Executive Director of Budget and Finance, Risk Manager, and Director of Human Resources. The Chief Operating Officer is on administrative leave pending Board action on a recommendation for his termination for conduct documented in the Legislative Auditor's September report.

8. We have been open and cooperative with the US Attorney and the FBI in their investigations of the matters disclosed in your two reports. And, of course, Carl Coleman is no longer employed by the School Board

Other changes which I expressed hope for in my last response, regarding the governance, organizational structure, and culture of our system, will take more time. Reviewing this fresh report of administrative dysfunction strengthens our resolve to root out its causes.